



## “Yes Bank 1QFY16 Earnings Conference Call”

**July 29, 2015**



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*YES Bank Limited  
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**Moderator:** Ladies and gentlemen, good day and welcome to the YES Bank 1Q FY16 Earnings Conference Call hosted by Macquarie Capital Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sameer Bhise from Macquarie Capital Securities, thank you and over to you sir.

**Sameer Bhise:** Good evening everyone and welcome to YES Bank's Q1 FY16 Earnings Conference Call. At the outset, I would like to thank management of YES Bank for giving us this opportunity. From the management team today we have Mr. Rajat Monga – Senior Group President, Financial Markets & CFO, Mr. Pralay Mondal – Senior Group President, Branch & Retail Banking, Mr. Jaideep Iyer – Group President, Financial Management, Mr. Niranjana Banodkar – President & Country Head, Financial & Investor Strategy. Without much ado I would like to pass on to Mr. Rajat Monga for his opening comments and then we can open the floor for Q&A. Over to you sir.

**Rajat Monga:** Thank you Sameer and thank you Macquarie for coordinating this call for YES Bank's first quarter result update. I would just take first few minutes on what we believe is the emerging dynamics on the operating environment, overall macroeconomic backdrop for the country as a whole and we will progress into the financial and some operating highlights of the performance of the Bank in the current quarter and we will be glad to take the questions thereafter.

As most of you would be well aware, we have seen the interest rate moderation cycle continue to progress in the current quarter as well with RBI delivering a 25 basis points rate cut on 2<sup>nd</sup> of June earlier this year. Also current developments on the commodity prices easing up globally, some progress of normalization for the monsoon I think is also helping us expect more rate cuts as the current financial year progresses. We are expecting about 25 to 50 basis points more rate cuts from RBI in the current fiscal year. The other macroeconomic backdrops comprising from fiscal and current discount deficits also seem to be in a decently consolidating phase with moderation in both and being helped by crude prices coming off and recently even some moderation in gold prices have been witnessed. The government has also initiated action on direct credit of subsidies to beneficiaries' bank accounts and we believe that should be now progressively helping the fiscal scenario for the government as well.

On the growth front we still believe the progress is only modest and not very broad-based. The economy continues to improve but the improvement is pocketed and is not finding broad basing an outcome. We are still expecting the GDP for this year to improve from 7.3% last year to a number of 7.8% this year with growth a little bit biased in terms of services sector to continue.

We will move into some of the highlights of the current quarters financial performance for the Bank as well. The Bank is reporting a 35% growth in its advances and now totaling to a little over 79,000 crores as compared to about a little less than 59,000 crores in the same time last year. The growth continues to be diversified and across several sectors with adjusting for seasonality significant improvements also happening in the retail and SME lending books.

The Bank has been witnessing new opportunities for growth of late from sectors like renewable energy, telecom, agri business; media entertainment as well as IT enabled services which has been contributing to most of the recent growth as well as much of the growth that the Bank witnessed in the last 3-4 quarters as well. So much so that about half the Bank's power sector exposure, more than half of that is contributed by renewable energy segments.

Quick look into the deposit side of the Balance Sheet as well. The overall deposit book has reported a growth of 25%. The total deposits now stand at 95,000 crores a little over. CASA mix is at 24.3%. This compares to 22.3% position of the same period last year. Overall the CASA deposits have shown a growth of 31.2%. Within CASA the growth has been led by Savings Accounts balances and we are reporting a Savings Account balance book of a little less than 14,000 crores representing a growth of about 46% on a year-on-year basis, so traction on Savings Accounts continues to be strong and the intensity of retail clients behind Saving Account continues to be robust and safely in excess of 90% in terms of total contribution of the SA Book.

The funding structure of deposits is also progressively moving in the direction of retail. The Bank is now reporting 52% funding deposit mix from either retail or CASA which is 7-8% mix improvement as compared to the same position last year led by a 48% growth in this deposit segment which is either retail deposit, which are individual deposits and/or CASA deposits.

Few comments on the P&L as well, the Bank is reporting a 28% growth in its Profit After Tax, the reported number is 551 crores. The growth in profits has clearly been led by growth in Net Interest Income which has improved by a factor of 42%. Net Interest Income has been helped by the Balance Sheet growth of about 25-27% and supplemented by expansion in margins. On a year-on-year comparison the Bank is reporting a 30 basis points improvement in margins from 3% in June quarter of previous fiscal year to now, a Net Interest Margin position of 3.3%. That's also a small 10 basis point sequential improvement in the Net Interest Margins pushing up the overall growth in NII. Fee Income has grown at 32% with higher contributions from retail and financial markets in the current quarter in relative proportions. Overall the Bank is reporting a Return On Assets on an annualized basis of 1.6% and Return On Equity on an annualized basis of 18.4%.

Some commentary on the asset quality position as well. The outcomes on asset quality in the Banks judgement continue to be resilient given the economic backdrop. We are reporting a Gross NPA position of 46 basis points and a Net NPA position of 13 basis points. There was an up movement in the Restructured Book. The position as at June 30<sup>th</sup> of Restructured Book in

relation to the total loan book is 71 basis points. This is largely on account of two loan accounts in the road sector that were restructured in the current quarter. Both these projects have been restructured on account of the postponement of the commencement date of the projects given the administrative delays of permissions from the authorities to start tolling. These projects, both of them continue to be healthy in terms of their operating development, while they are not operational, but on their project progress and there doesn't seem to be any financial difficulty of note at this point in time and could very well become standard assets as and when these projects come on stream in terms of beginning of tolling in these cases.

The Bank's total road sector exposure is about 1.3% of which about half is already operational roads and about a third is what has already been restructured including couple of accounts in the current quarter. The provisioning position of the Bank continues to be a healthy 71% as far as specific loan loss provisioning is concerned. The total P&L burden on account of provisions in the current quarter was 98 crores which was roughly equally split between specific provisions for NPAs and general loan loss provisioning with a small addition to counter cyclical provisioning as well.

Overall the position on the counter cyclical buffering remains at 50 basis points to the total loan books of the Bank. The Bank also did not make any sales of any loans to ARC in the current quarter.

Some data points on the capital position of the Bank as well. The Bank is reporting a total capital adequacy of 15% of which Tier-1 capital adequacy is being reported at 10.9%. There have been increase in capital burden on account of specifically the operational risk measure where the last three years turnover is the basis of applying capital charge and as the year has shifted so has the last three year average, and therefore has resulted in a notional increase of capital requirement for operational risk. The regulations have also been changed to increase the proportion of operational risk that banks have so far been applying, so both of these factors have contributed to a correction in the total capital position. The growth in the current quarter would have consumed only 10 basis points of capital however the changes in the computation of operational risk have consumed the balance. The total capital funds are being reported at almost 17,000 crores. This is after a small raise of Basel III compliant Tier-2 capital in the June quarter to the extent of 554 crores which was raised in the month of June.

Quick commentary on liquidity. Now there is a good summary variable in the form of LCR that the banks are reporting which is a measure of liquidity in the banks' balance sheets. We are reporting LCR position as at June 30<sup>th</sup> of 76.6%. Here again there have been tightening of rules by the central bank in the financial period beginning 1<sup>st</sup> April, 2015. The Bank had reported 80% LCR position as at March that has come off to 77%. Though there is a fall that is more than explained by the change in the implementation guidelines of LCR. Like-for-like basis the Bank's LCR would have improved by 6%.

On some of the other new developments that we wanted to highlight, the Bank has received RBI approval to set up an offshore branch in proposed GIFT City which is the international banking cum domestic financial services set up being planned by the government jointly with RBI in the State of Gujarat, which will enable the Bank to initiate its cross-border offshore banking business largely focused on Indian customers on their cross border requirements as well as subsidiaries of Indian clients that operate overseas for their banking requirements. To support that branch, the Board of the Bank has also approved the initiation of \$ 1 billion medium-term note program which would be initiated in the next couple of months which will be one of the funding basis for the offshore branch of the bank. We are expecting that this branch, as and when it becomes operational, will help the Bank expand its footprint to cross-border requirements of Indian clients substantially covering products like loans, loan syndications, offshore hedging requirements, offshore funding requirements of Indian clients and subsidiaries as well as offerings on financial markets and hedging solutions.

The Bank has also obtained a license from the Reserve Bank in the month of July to be inducted as one of the primary dealers that run the underwriting business for the sovereign debt issuance program in INR. And this is towards the Bank's ambition of becoming a complete Rupee debt house in the Indian market space.

The Bank also continues to receive encouraging accolades and recognitions and this quarter particularly on the Bank's transaction banking businesses, the Bank was awarded by the Asian Banking & Finance Wholesale Banking Awards in Singapore earlier this quarter for being the 'Cash Management Bank of the Year in India' as well as being the 'Trade Finance Bank of the Year in India'. The Bank also got recognized for its Corporate Internet Banking services. The Bank also got recognized for its Information Security Initiatives that it is taking to make transactions more secure. So the direction of the Bank's transaction banking business continues to be very encouraging and some of these encouragements through these recognitions is also welcome.

So we will take a pause on the management commentary at this point and we will open the floor to questions.

**Moderator:** We will now begin the question and answer session. The first question is from the line of Nilesh Parekh from Edelweiss Securities. Please go ahead.

**Nilesh Parekh:** First is on your growth that we have been growing higher than the industry, it's almost 3x of your growth. You have been highlighting that this is largely on account of renewable energy and agri but some sense on the nature of the lending that we are doing, is it largely short-term and how is it panning out?

**Rajat Monga:** On the growth side I think you should divide it into two parts, one is the growth that we also highlighted which was an year-on-year growth and for a moment if you look at the growth number on a sequential basis that gives a relatively moderate picture and, therefore, is more

representative of what the current outcomes are. So we will be reporting or have reported a 5% sequential growth in loan book. You will also see that the credit substitute book is either reducing or is stable, so overall the profile of growth is biased by the base at this point in time so if I have to put a handle on what my trend growth is, it will be between 20-25%.

**Nilesh Parekh:** Also in terms of non-fund-based exposure we have seen that non-fund-based exposure has risen which has impacted our return on risk weighted assets, so some sense that as well?

**Rajat Monga:** See non-fund exposures are broadly divided into LCs and guarantees so there is a clear emphasis in the bank to step up on transaction banking wherein we would like to bank the exports and imports of Indian clients more as well as look at intermediating for their requirements in terms of guarantees. So that is a focus area for the Bank, there is no special growth target there, it is all a resultant of the fact that we are doing more banking in terms of the transaction banking space.

**Nilesh Parekh:** But this non-fund exposure can rise further from these levels what we are seeing?

**Rajat Monga:** Non-fund-based exposure, you have to first eliminate the exposure that you see on account of foreign exchange contracts and/or interstate swaps because those are one category of Balance Sheet exposures or non-fund-based exposures which we have to take differently because their credit weights are very low. So if I write a forward of \$ 1 million it will be a Rs. 6 crores of Balance Sheet exposure or a Rs. 6.5 crores of Balance Sheet exposure but its credit equivalent is very small, it is like 1%, 2%, 3%. Notional are large but the credit risk is small and many of them are with bank counterparties. So you will have to keep that aside and look at the remaining. The remaining is LCs and guarantees. Now LCs and guarantees are inherent part of banking approach to a customer. We don't sell LCs on a stand-alone basis. LCs will always be part of a working capital financing. So if a customer wants to import, he will first have to open an LC. When the LC is due he will draw upon the working capital to retire the LC, so we have to have an LC as a sub-limit of working capital. So when you see LC, you have to resume it is working capital business.

**Nilesh Parekh:** What is the RWA number currently?

**Rajat Monga:** Total RWA for the Bank?

**Nilesh Parekh:** Yes.

**Rajat Monga:** Quick number I have got is 1,12,000 crores.

**Nilesh Parekh:** Some clarification on the capital consumption. You said that large part of capital consumption was based on the rise in operational risk burden. So some clarity on that, why is that so? You stated something I was not able to understand?.

- Rajat Monga:** I will repeat that, operational risk in a bank requires the bank to put capital aside, like we need for credit risk and market risk and other risks. Operational risk works on a very simple formula, it is a factor of your last three years average turnover and turnover of last three years shifts every one year so this is the first quarter, so our turnover has for the capital we were applying last year was being used for fiscal, 11-12, 12-13, 13-14 fiscal years average. This year that has moved to 12-13, 13-14, 14-15, so we have removed 11-12 we have added 14-15. On that average we have to put a factor as capital that was one. So it is not risk it is just a thumb rule because we are following a basic indicator approach in India for operational risk. Secondly, what RBI has done, which I was saying is that, they have increased the factor for this year. Earlier the factor used to be 8 now the factor is 10. So what we were putting 8 for x we now have to put 10 for x and like I said the x has also shifted because one smaller year has gone away and one bigger year has come in.
- Moderator:** The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** I had a question on the refinancing, if any, under the 5 - 25 dispensation that you have done this quarter?
- Rajat Monga:** There is none.
- Amit Premchandani:** Can we get a handle of how is the SMA moving and what is the SMA percentage for you?
- Rajat Monga:** It's not a public number, so what we have also put in our results this time and you should feel free to go through that, is our rating categorization of our corporate exposures.
- Amit Premchandani:** Yes that 75% A and above, you are referring to that?
- Rajat Monga:** Yes, so I am saying there is also a double B or below. So doubled B or below is basically below investment grade and, therefore, we will have a very high overlap with SMA behavior.
- Amit Premchandani:** Any sense of the pipeline of this 5 - 25 or any sense of the accounts which may come up over the next three quarters during the year?
- Rajat Monga:** It's easy for me to say no but there is nothing in our visibility today.
- Moderator:** The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.
- MB Mahesh:** This time on the transaction Banking Fee Income, could you comment on it, it's been relatively flat and the growth has been kind of slowing down in the last few quarters?
- Rajat Monga:** Transaction Banking Fee?
- MB Mahesh:** Yes.

- Rajat Monga:** So there is a slowdown as far as sequentially the growth is concerned. So yes, this quarter was a little ordinary quarter to be honest. There has been a little bit of corrective sort of outcomes on the import-export throughputs, the country is also not importing as much that it has been much more in the distant past but overall the throughput has been relatively muted in the current quarter. I will still want to give it a little bit of a seasonal play there because we should have seen a correction in the first quarter of last year as well from the fourth quarter of the year before last. So you should allow it to at least come into a trend if there is any such trend. So it has been soft, yes, clearly. But we don't believe that it has reasons to get yet softer. I would give it some seasonality and will expect that September quarter will be better.
- MB Mahesh:** The second question is pertaining to the leverage ratio that you have reported on the Basel. It shows a number of 6.3% and you have given a number of exposure of about 1,86,000 crores under exposure. If I take the loan book as 80,000 crores and the investment portfolio as 42,000 crores I am kind of left with a number of 65,000 crores which is not kind of fully explained. Are we right in the fact that this pertains to the credit equivalent of the off-balance-sheet exposure?
- Rajat Monga:** Not credit equivalent but the exposure, yes.
- MB Mahesh:** That will be the right way to look at it? We are not missing any other data points?
- Rajat Monga:** Not credit equivalent but exposure equivalent.
- MB Mahesh:** The power exposure in the last few quarters has been consistently rising. You have partly explained it by the exposures that you have taken on the renewables. Is there anything else that which you have taken in the last, let's say, 4-5 quarters because it was 5.5% in 1Q FY15 and it's now close to about 9% in FY16.
- Rajat Monga:** I think one is also that earlier we used to give a separate sort of division between power and electricity, so you should combine that. We have combined it because the power was only reducing because projects were getting more operational and in Basel anyway we give a combined exposure. So the predominant reason is renewable energy, so that is a clear reason. So if I have to contrast that with the other fact that we also can put for you is that we have no project finance exposure in conventional energy because renewable energy will have a mix of working capital and project exposures.
- MB Mahesh:** But in the conventional ones you don't have any project exposures?
- Rajat Monga:** We have no project on conventional energy. We did have a step up on our conventional energy exposure because of a bond transaction we completed in the 1Q last year, so you will see a step up, that's a AAA bond. So there was a step up on that count and much of the remaining will be contributed by renewable energy.



- Moderator:** The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.
- Kashyap Jhaveri:** I had a question on your micro-finance book. What's the size of that book as of today? Is it a meaningful number of our Total Loan Book as of today?
- Rajat Monga:** Micro-finance loan book will have two components; one is where we lend to micro-finance companies that will be quarter-to half-percent of our loan book, closer to half.
- Kashyap Jhaveri:** Is this BC?
- Rajat Monga:** No, these will be companies which are micro-finance lenders by themselves, not BC, NBFC MFIs, that category. Then we do our own interventional lending where we have a majority BC sort of arrangement as well, that stays about 1.7%.
- Kashyap Jhaveri:** 1.7% of loan book, we are not calculating as a percent of customer assets here?
- Rajat Monga:** Yes, this will be a percentage of loan book, that's right.
- Kashyap Jhaveri:** Does that book have some seasonality in the sense that in Q1 usually it would cool off and then probably pick up?
- Rajat Monga:** Not as much as agriculture has. So I can confirm that our June book is bigger than our March book. March book was more bigger than the December book, than June is. So there will be seasonality but not an oscillating seasonality. Because micro-finance is also in the rural sector so we will be dependent on the rural economy's requirements.
- Kashyap Jhaveri:** In this BC model what is the yields that you would charge?
- Rajat Monga:** Our economic interest there is about 13-14%.
- Kashyap Jhaveri:** So in terms of your margins, let's say, if this book were to expand this can contribute meaningful to your overall NIMs, though not on the loan yields?
- Rajat Monga:** Both because the loan yields also will be higher but you can't extrapolate this book indefinitely. I mean what is short of 2% I don't think we will be going beyond 3-4% in any case.
- Kashyap Jhaveri:** Probably not a target but a limit on mind is roughly about 3-4%.
- Rajat Monga:** See, some of these businesses are also designed because we have to have an economic outcome and this also has a high overlap with priority sector lending. So today we are driving this with both the factors. So tomorrow if one of the factor changes, I am not suggesting that I know anything or that it will change, but if any other factor changes we could look at outcomes

differently. But as it stands today we don't think this book is going to be more than 3-4% on its, let's say, mature case.

**Kashyap Jhaveri:** When you say economic interest, it's basically something that we would get from the BC, about 14%.

**Rajat Monga:** Cost. I am saying, let's say, the yield of the business and when I say economic interest we should also make economic sense, what the point I was making. It could stop making economic sense because of excessive competition potentially or it could make less compulsive sense because the priority sector rules have changed, shifted or something else. The point I am making is a combination of these two factors as this stands today we see it limited to be doing 3% and 4%.

**Kashyap Jhaveri:** When I asked about yield you mentioned I think something like about 14%. Did I hear that correct?

**Rajat Monga:** Yes.

**Kashyap Jhaveri:** So that's so to say your spread on that loan that you would retain on your book, 14%? Have I got that correctly?

**Rajat Monga:** Yield, not spread.

**Moderator:** The next question is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.

**Gaurav Agarwal:** I have one confusion with the presentation format, basically on standard restructured advances. So I am referring to FY15 numbers, in the presentation the number says 381.9 crores.

**Rajat Monga:** Which period are you referring to, say again please?

**Gaurav Agarwal:** I am referring to FY15 because for that period I have the Annual Report as well.

**Rajat Monga:** Period or date, as in your....

**Gaurav Agarwal:** At the end of FY15.

**Rajat Monga:** Yes.

**Gaurav Agarwal:** So that presentation says 381.9 crores.

**Rajat Monga:** What is the confusion?

**Gaurav Agarwal:** In the Annual Report if I check it is like 404 crores, it's a difference of only 23 crores but....

**Rajat Monga:** So the difference would be overlap with NPA.

**Gaurav Agarwal:** So I am referring to standard part of the restructured in Annual Report whereas the presentation also says net of NPA. In the presentation restructured format you have something like grand total, below that standard and in that standard 404 crores.....

**Rajat Monga:** I will double check this. You are saying the gap is how much?

**Gaurav Agarwal:** 23 crores.

**Rajat Monga:** So it's not a meaningful gap.

**Gaurav Agarwal:** It's not a very meaningful gap.

**Rajat Monga:** So we will confirm that. My guess at this point in time is that this is because I don't want to tell you restructured and include that in NPA and call that NPA also, so you will count that, I don't want you to double count.

**Gaurav Agarwal:** No, I am comparing apple to apples only. I am sure that I am looking at the right numbers.

**Rajat Monga:** Okay, so allow us to come back to you on this, possibly on the call may be I will clarify if there is a specific.... anyway I am assuming otherwise the item is little nominal.

**Gaurav Agarwal:** Yes I understand that. If it is possible on the call, may I request last five quarters write-offs?

**Rajat Monga:** We will work on that numbers. Last whole year you will get from the Balance Sheet.

**Gaurav Agarwal:** Yes, but I have the full year number, I wanted the quarter-to-quarter basis. It's a good number to follow, just to keep a track. So if you can provide me the last quarter, the current quarter number?

**Rajat Monga:** This number might be difficult to give on the call but we will give you the Q1 number so that you at least have that, so your five quarter data is complete. 4.5 crores is the Q1 write-off, the June 30<sup>th</sup> quarter.

**Gaurav Agarwal:** Any pipeline for ARC sales?

**Rajat Monga:** I wish that was as easily forecastable but as of today there isn't any.

**Moderator:** The next question is from the line of Anish Tawakley from Barclays. Please go ahead.

**Anish Tawakley:** I was looking at the maturity profile of the loan book and if I have done the numbers correctly less than one year maturity has grown by 23%, relatively modestly whereas the more than 1 year have grown by 43%. Is there is a sort of behavioral profile shifts issue? Also the five year

plus has gone up very sharply by 40% although that comes from the 3 years, so what's going on there?

**Rajat Monga:** I will need help on this but I know there has been a re-class, but to what extent will the re-class....because we keep looking at the behavior of our, let's say, the CCOD type of product and our challenge also has been that because we were a younger entity we didn't have the history.

**Anish Tawakley:** I know we had this volatility once before also because it goes into the five-year bucket is a bit....for a bank that's 12 years old, 5 year bucket being that volatile?

**Rajat Monga:** Not volatile, what would have happened is that we would have got now data that, let's say, instead of 10-20% of our CCODs have a five year sort of, let's say, usage history, so we will move that to the five-year presentation, 10 will become 20, it's the same loan, it's not new loans.

**Anish Tawakley:** It's not due to five year plus lending per se in this year?

**Rajat Monga:** In this quarter or year?

**Anish Tawakley:** So the yearly number has gone from 74 billion to 105 billion, the five year plus number.

**Rajat Monga:** So I am saying is that it cannot be that there has been no greater than five year lending. There has been greater than five year lending but I will need to find the split between the...so you want me to focus on five years?

**Anish Tawakley:** Yes five year would be better. And this shift is from the three year bucket to the five year bucket actually, so it's not that the shift is from....

**Rajat Monga:** No, you can see three year come down as well, right?

**Anish Tawakley:** Yes, three year has come down.

**Rajat Monga:** So we will focus on five years and try and get out the breakout between how much is because of shift and how much is because of fresh. I will need time for that but.

**Anish Tawakley:** That's fine. This is the second quarter we have had, I'm not saying the restructuring levels are too high but at least they are now nontrivial. So does it reflect more difficult environment exits or does it reflect a greater tolerance for restructuring on your part?

**Rajat Monga:** Anish one theme that we have been witnessing last quarter and this quarter is roads and which is also I highlighted because 70%-80% of our restructuring of the last two quarters. Actually I don't think we had any momentum before, that is all road sector. So 3 or 4 names in the road sector have got restructured and that's a strong theme so which is the reason I can, therefore,



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sort of carve out and which is what I was highlighting that out of the 1.3% exposure that we have to roads, 50% is the operational roads, so unless there are accidents there, which we don't know yet, there is unlikely there should be a problem.

**Anish Tawakley:** Like if I were to go back 3 years Rajat would you have been able to get out of these exposures earlier as oppose to have to sort of...

**Rajat Monga:** No, so these exposures are projects that we have funded. So 3 years ago there would not have been a much of an exposure. Now let's say there is one project here, the largest one is 80% complete. They are now in negotiation with NHAI as to commence tolling. Ideally at 80% they should get the tolling commencement certificate but there are some, NHAI has thrown back some non-negotiable, so now either they agree to those items, take the economic compromise and we don't restructure or they hold onto their position but unfortunately we have to look at restructuring as a consequence and this road project in 6 months might be operational also. So these are situations which are very project specific and we have 70%-85% completion in these 3-4 projects.

**Anish Tawakley:** If we would expect this restructuring number to drop in subsequent quarters again.

**Rajat Monga:** There is some curing period, yes. This specific...

**Anish Tawakley:** I'm not talking about the stock, I am not talking about flow, incremental restructuring to drop.

**Rajat Monga:** I would say the stock also should fall back upon the resolution of some of these situations. But yes, so just to complete the road picture so that the total scenario emerges, 1.3% is our exposure, 50% operational so I'm assuming those are not candidates so 65 basis points gone, 35 basis points is already in our restructured numbers. That is about 100 basis that I have explained so there is a 30 residual. Road as such is as far as I can take--a small safety margin--a view that roads is whatever had to happen is happened. The other restructuring this sort of legacy we have is from that dated microfinance situation that transpired in 2011 and whatever is the remaining rundown position that is there in that book. I have described my restructuring book to you already substantially, 90% is already described.

**Anish Tawakley:** Rajat on the CASA front, the CA growth is pretty muted particularly even you have focused on cash management. If you don't mind sharing the average SA cost.

**Rajat Monga:** The SA cost will be 6.9 so that's the easier answer that I can give. We have taken some pricing adjustments and we will be taking more as well on SA category so this quarter was the practically the first step on pricing on the mass product. We had raised the 100,000 threshold from 1<sup>st</sup> April this year to 300,000 for the availment of a higher 7% interest on the savings account. That has come through so far so good in terms of the SA book has also grown nicely and that we have actually had one of the better quarters of SA accretion in general so the SA accretion has been very good and despite the pushback that we would have given to our clients

on levels here. More pricing action is coming so we would be looking at every year 20-30 basis points reduction in cost from SA if not more, progressively depends on. Also if interest rates come down we will help it more because it also gives us a concurrent opportunity to reduce pricing. That part is a gestationary sort of project and we will keep at it.

Current accounts on the other hands you have to give me the year-on-year sort of discussion. Yes, the cash management has been doing well. The challenge is that given the economic situation the current account balances for example from some segments have disappeared because those segments became tight. As the economic cycle tightens we also lose current accounts in the process from the same customer, the same customer would put higher balances in good economic cycles or higher throughput times.

The other thing which we are doing is also consolidating the current accounts. We are also weeding out the unprofitable current accounts so the value of current account is increasing which I can't show you in terms of CA balances but I know for a fact from costs standpoint. The bank has come through evolution where we also took less profitable CA accounts which were more high cash intensive current accounts. Now we are also trying to weed that out because while we get the current account balance but we also get down time with the hard-currency sitting in our vaults and that's also costly to process the hard-currency. Those things are also happening in terms of the business so there is according to be some more consolidation which is still pending, it's not all done. But the value metrics of the business is doing very well that is where I think cash management part is helping and electronification of banking is helping.

- Moderator:** Thank you. Our next question is from the line of Nitin Kumar from Prabhudas Liladher. Please go ahead.
- Nitin Kumar:** My question is on the power exposure, can you give more color on the type of borrower fare in the rating distribution in this segment and also how do you see in this segment growing further now that it already accounts for nearly 10% of the customer assets?
- Rajat Monga:** I think one color we already gave was that there is about a little more than half mix in favor of renewable energy.
- Nitin Kumar:** More in terms of rating distribution and the credit risk perspective.
- Rajat Monga:** Let me start with the exposures that we have and have an externally below investment grade rating. That would be less than 1% of the power sector exposure. Then we will come to...so if there are projects, projects typically are rated in the BBB segment. All good and bad projects, if it's a AAA company setting up a new project, greenfield, in a separate company it could very well get a BBB or BBB+ rating typically for a good sponsor so projects will all land up in the BBB rating category. We would have about the...now I am also shifting to internal ratings in terms of the mapping that we've also published in our note that we give in our results. In

power sector we have... 75% of our exposures will be A or better and about quarter of our exposure will be BBB categorization.

**Nitin Kumar:**

On the growth part in this segment going ahead?

**Rajat Monga:**

Growth is again it depends on how we look at power sector as such I don't think you can expect that the headline of power sector will go much higher from here I don't believe so, internals will keep shifting. I don't believe that there is a whole lot of scope to the expanding power sector exposures in any case. I think you should look at, here is that we also hold well rated bonds in the power sector, so my sense is about 20% of our exposure is also through bonds and these bonds are basically as good as names that you can get in Indian power sector. Those are also weighing in this disclosure. Power sector might also have PSU power names here because it's power. We might be doing non-fund base business with them, opening LCs for their imports etc so it's all of that put together. While you ask for color, my suggestion to you is that don't paint it with the same color.

**Nitin Kumar:**

Secondly our savings deposit growth has been running very strong. How much of this growth this quarter was led by the new account additions and how much due to the increase in savings balance? The reason I ask is because we changed the cutoff limit on savings effective this quarter so has this led to any change in trend line?

**Rajat Monga:**

Nothing that we have been able to safely conclude. What I must mention to you is that as compared to more mature banks we will invariably get more new balances because we are originating more new accounts as compared to our stock, as compared to more mature banks. Our stock is not as I mean it is becoming better. Other banks have hypothetically 50-50, let's say new account balance sheet is coming from not even 50-50 I would say 40 from new, 60 from existing, so we will be more than the industry. Industry will be about clear majority coming in from new accounts; we will have a dominating number coming in from new accounts. Our issue would have been what if our old accounts that proportion has worsened that is not happened. That could have also happened first from withdrawals, none of that is happening. But that hypothetically it can happen that customers are taking their money away. My question to you will be while we have raised the bar but where will the money go? Because our pricing even with the changed arrangement is still attractive so the steps we are taking are with the anticipation that we will not get nor are we trying to shock our clients. We will also do it slow and steady but we will be steady. We will be keeping the mandate of lowering the cost of savings account on the table all the time.

**Nitin Kumar:**

Lastly what is the outlook on margins going ahead, do we see the scope for more improvement here?

**Rajat Monga:**

If you allow us to make a 3-4 year prognosis, absolutely. Margins will be improving gently so 4-5 years later when my CASA is 35%-40% will we have margins nudging 4%, yes. But that means a 10-15 basis points per annum journey on margin improvement when there will be no

real methods to shock it higher. It has to be built slowly, steadily through improving CASA and to reducing cost of CASA as well as by improving the business mix more in favor of retail loans, SME loans progressively.

**Moderator:** Thank you. Our next question is from the line of Adarsh from Nomura. Please go ahead.

**Adarsh P:** Question on your cost of funds, we have seen a pretty sharp fall of 50 bps in two quarters, 70 bps in three so just if you can try and split us from an angle of retail deposit to what kind of fall we've seen wholesale, what kind of fall in borrowings, what kind of fall if you just try and explain how the 50 bps on a two quarter basis and 70 bps on a three quarter basis fall in cost of funds?

**Rajat Monga:** Can I say I myself not analyzed this part. It is not the best answer but honestly I have not looked at that but I can give you some sense. If you look at the...what period are we looking at in terms of...

**Adarsh P:** I will just give you the numbers, 1Q we were at 7.6% reported cost of funds, 3<sup>rd</sup> Quarter we were at 8.1% and 2<sup>nd</sup> Quarter last year we were at 8.3%. I'm assuming that your share of retail plus CASA is going up and that's a little stickier part of the cost of funds so which is 40 last year, 50 now. I'm just saying that larger part of the delta would have come from the other and if I extrapolate that then it's like a 100 bps fall so I'm just trying to understand the cost but a little better.

**Rajat Monga:** Some cost is also influenced by foreign currency that is unfortunately hard to explain by only rupee yields. Let's say we took of foreign currency borrowing and which we have taken...last year was heavy on foreign currency borrowing, long-term. But the noted because there is Libor plus 200 that is only a 2.25% interest outgo so that biases the numbers. It cannot be explained by only fall in interest rates.

**Adarsh P:** But you would have it here in a fully hedged basis so you would include that cost in interest?

**Rajat Monga:** Yes but not everything is fully hedged. I have a real problem with the Indian accounting here. We also hedge some through options. Option in India cannot be hedge accounted. There is no way that options can be hedge accounted even if they are option structure which has a fixed downside so that goes to mark to market.

**Adarsh P:** You are saying so just to get the numbers right, we have about 250 billion of borrowings so of that if you just give me approximate number of your foreign borrowings.

**Rajat Monga:** One third.

**Adarsh P:** About 80 billion and everything part of this, hedges through an option which the cost of fund can't be put in here. If you can explain that it will be better because I was not able to...



- Rajat Monga:** Option has two costs, one is it's the cost of entering the option so there is a premium. Other is the mark to market of the option. It's like a position while it is a cover for my underlying but it is a position so all the outcomes will come through reval. It will take me 15-20 minutes to give you the full picture, tell me where to stop. The accounting of the hedge will not be...the option hedge will not be through interest line. Some of that will be through interest but not through the cost line. I cannot compute my cost of funds like that.
- Adarsh P:** Just to simplify it example that you have a certain cost of funds say in a US\$ currency and then there is a cost of hedging 4-4.5 whatever may be the number so there are two components to the cost and you are saying part of the 4.5 does not get recorded in the cost of fund for various reasons. What part of the 80 first is hedged and there will this 4.5 otherwise go if it's not in the cost of funds?
- Rajat Monga:** Mark to market.
- Adarsh P:** But it should actually if you are borrowing at 4% and you have a 4% cost somewhere or the other it should hit the P&L every quarter-on-quarter.
- Rajat Monga:** I will get a debit in my mark to market gain or loss so I will reval all my foreign-exchange positions every day.
- Adarsh P:** And what part of the 80 billion is hedged and what is not hedged?
- Rajat Monga:** It will all be hedged in one way or the other.
- Adarsh P:** Ideally the P&L will not have an impact if there are rupee movements here or there?
- Rajat Monga:** That depends on the option structure. It may have pass through impact, not ultimate impact. Mark to market impact might be there. Let's say I have used underlying and I've hedged through an option, now the option has a completely defined downside. It does not mean that I have an open position. But the option will still have it, volatility based mark to market outcomes and valuation will go up and down.
- Adarsh P:** For example you do an L plus 200 bps and then you have a hedging cost that's your delivered cost of rupee borrowing when you kind of convert it so what will that percentage be today, what will be the cost of that?
- Rajat Monga:** Fully hedged. If we want to do that it will be 4% to 5%.
- Adarsh P:** The hedging cost of it?
- Rajat Monga:** Yes if we want to do that. That doesn't mean we are doing it.

- Adarsh P:** For this 80 billion, the amount that goes into interest expense if you can just simplify it, what will that amount be so you hedge part of it; there is cost of option funding. Just to simplify it would it be like 4-6-8 so 8 is fully hedged, 4 is un-hedged and there is somewhere in between so what will be that number?
- Rajat Monga:** Un-hedged is zero. It will all be hedged. The question is that is it an accounting hedge and, therefore, I report it in my interest line and is it a non-accounting hedge and, therefore, I report it in my mark to market line. There is also thought part which is not un-hedged but I have foreign currency assets against that.
- Adarsh P:** That part is absolutely understandable.
- Rajat Monga:** That is also through borrowing so you can assume it is a third each of the third that I described to you. A third is a pass through to foreign currency asset, a third is something that we are hedging through options and or something that is not an accounting hedge and a third is which is a proper hedge as you were describing which is that I've converted into rupees for the tenure and I am calling it an accounting hedge and I am debiting it into the interest cost line.
- Adarsh P:** It means about 25-30 billion maybe somewhere where your delivered cost may still be 4%-5% and your running hedge is through option, that's fairly better way to understand it and some bit of color on your third-party and retail fees. I think MFs distribution doing fine but just if you can give me some color and sustainability of that?
- Pralay Mondal:** On the mutual fund side and the banker side obviously the 1<sup>st</sup> Quarter is always a slightly softer quarter vis-à-vis the last quarter of any year, so from that perspective when you look at it because the overall momentum in the branch banking and the customer traction is increasing, on a Y-o-Y basis we have done lot better. Also what we are seeing is that in investment business obviously there are some issues in terms of the commission structure etc where there is larger clarity required over a period of time. What we are doing is we are trying to see how do we create more traction on volumes in terms of more customer penetration and we are not looking at it only as a revenue, we are also seeing that how do we get more engaged with the customers with more traction at every customers level. As I said before, the Y-o-Y is looking slightly better but overall on the entire retail fees base I think there is a significant traction we have seen both on a Y-o-Y basis also if you look at the last five quarters, there was a significant higher traction which is a momentum which we will continue to see in future as well.
- Moderator:** Thank you. Our next question is from the line of Amit Ganatra from Religare Investment. Please go ahead.
- Amit Ganatra:** You provided the breakup of corporate exposure in terms of ratings in that business update so two things, one is that this is external or this is internal?

**Rajat Monga:** It is internal rating tested for external matching.

**Amit Ganatra:** Even if it would have been external outcomes would have been similar?

**Rajat Monga:** Yes. We have an average 90% assurance there.

**Amit Ganatra:** Can you provide similar data one year ago I mean what has been the migration in last one-year?

**Rajat Monga:** Amit we will provide that maybe next time, we are not ready with that data but we will do that.

**Amit Ganatra:** This risk weighted assets for last three quarters are gone up quite significantly and that risk weighted assets to total assets ratio also now almost is 80%-81% so it's going up considerably. Is that operational risk adding to your risk weighted assets or it only requires more capital to be kept aside?

**Rajat Monga:** No it is risk weighted assets.

**Amit Ganatra:** Operational risk also gets added to the...

**Rajat Monga:** I have to convert everything into risk weights and then compare it for capital, how much capital do I have so everything is denominated in terms of risk weights. If you see an increase in risk weights this quarter a good part is operational risk in terms of explanation. When you look at analyzing risk weights you have to break it down BASEL 3 disclosures that we give that will give you the sense in terms of how risk weights are moving, including across subcategories. There is no change in the underlying fundamental business if at all it is because of mix which will be visible.

**Amit Ganatra:** This time in this cycle of capital risk to capital raise, one that your customer assets book is not growing strongly and I am assuming that's a higher-rated exposure. The other thing is that this operational risk has hit you so overall is it that the timeline between the capital risks physically has fastened this time around because the capital consumption seems to be very high in last 3-4 quarters?

**Rajat Monga:** You have to attribute some of that to growth, some of that to regulations. Yes ultimately capital consumption has happened then we have to begin to test whether can this continue or this is also what is going to happen in the future. Capital consumption unfortunately Amit also is a function of capital position so if my capital position is high, ROEs will be low so my capital consumption for the same growth will be higher. As capital consumption increases for the same growth your capital consumption reduces so the ROE is increasing. Two things, capital is being consumed for example operational risk capital took up the 1<sup>st</sup> Quarter largely for two reasons, one year shift to a regulatory shift. We can clearly assume regulatory shift is not happening in a hurry but a year shift will happen again next year. Unless RBI allows us to

move to away from a basic indicator to a more sophisticated approach where we measure our operational risk and we will say lower the capital. Unfortunately that step has not been taken so this is capital which does not have its commensurate risk that we are keeping it for. But it is some mathematical number and we have to keep it aside because we don't see the corresponding operational risk incidents in the bank that should demand that kind of capital that's one. The other thing is I was telling you that the capital consumption is also decelerating naturally, mathematically decelerating behavior for the same growth going up and consume less capital.

To your main question, are we suggesting that capital raising is being advanced? We have been mentioning that capital raising is being planned for this financial year but towards the later end of this financial year and I don't think there is a change for that behavior so we are doing ROE of close to 20. That means if we grow close to 20 our capital ratio should be flat besides such one-off.

**Moderator:** Thank you. Our next question is from the line of Shashin Upadhyay from ICICI Securities. Please go ahead.

**Shashin Upadhyay:** Rajat of the BBB exposure that we have indicated 22%, could you tell me some color on industry wise in terms of what kind of industries are there and how chunky is this particular book, would you have any color on that?

**Rajat Monga:** Let us say this is corporate book, the presentation that we have given is only for the corporate book so that means there is no SME, no retail. Now is there any specific character of the BBB book that I want to highlight, not really. Other than that all greenfield projects will be here, including a greenfield project of a AAA company but it has been done by separate entity. And naturally our chunkiness will be more towards AAA and less towards BBB. We also have credit policy structures where our single borrower exposures drop, the limits drop from as we come from AAA to BBB. So let's say I can take maybe a 1000 crores AAA exposure but I don't think I can take a 500 crores BBB exposures is my argument. Exposure issue, could it be that AAA became BBB.

**Shashin Upadhyay:** Basically could you give me a sense of this book may be a year back or maybe two quarters back as in how this would have moved?

**Rajat Monga:** You are saying have there been rating migrations?

**Shashin Upadhyay:** Yes.

**Rajat Monga:** This book would have been 1% to 2% smaller so the weight of BBB has increased.

**Moderator:** Thank you. Our next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.

**Manish Karwa:** On this rating thing, the whole corporate book is rated now, the whole 75...

**Rajat Monga:** No so let me describe this methodology. Not all corporate book is rated, it never will be. We have an internal rating scale which we have mapped to external ratings so wherever I have an internal rating and an external rating, basis this disclosure I'm giving you a 90% assurance.

**Manish Karwa:** But how much of that book is rated for the total corporate exposure that you have?

**Rajat Monga:** 70%-75% odd will be rated.

**Manish Karwa:** And the remaining 25% you say they do not have external ratings?

**Rajat Monga:** Yes but they have internal ratings. Let's say I have 100 exposures, 70, I have internal and external ratings.

**Manish Karwa:** That is what you have put in the table?

**Rajat Monga:** No. That is what I have decided to construct this map so what is my internal rating, what is the external rating and I've assured myself of a 90% success there. Then I'm assuming that my internal ratings are fine to map to external rating even if there is no external rating.

**Manish Karwa:** The whole corporate portfolio is reflected over here right then?

**Rajat Monga:** Yes, portfolio is full. This includes loans of balance sheet, mark to market exposure with corporate and it includes bonds, all corporate exposure, all my corporate risk is on this table, nothing is outside.

**Manish Karwa:** Roughly 75% of your loan book is reflective of this rating table?

**Rajat Monga:** That's right.

**Manish Karwa:** 23% to 24% is retail any which ways?

**Rajat Monga:** Retail and SME yes.

**Manish Karwa:** On the steel exposure we have seen a sharp decline during this quarter, anything that has happened and something got repaid?

**Rajat Monga:** We had bonds so we keep selling bonds so don't be surprised if power sector also goes down because there is a 2% to 3% of the power sector holding is in bonds. Like I mentioned when we were discussing steel sector Manish in the last earnings call, we had mentioned we have given a 3.3% exposure and an indicator of our 2/3<sup>rd</sup> AA or better rating. Now that is because of bonds that AA and plus rating is because of the bond business we have done with the better



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rated Indian steel companies and we naturally distribute that because of reduction through sale of bonds and more will happen.

**Manish Karwa:** On the retail side of the business especially savings account, how many accounts have we opened this quarter and how does it compare with last quarter?

**Rajat Monga:** Last quarter last year?

**Manish Karwa:** If you can give me last 2-3 quarters should be good.

**Rajat Monga:** It will be worst than Q4 because Q4 has seasonal benefit. But it should be 30% higher than same quarter last year.

**Manish Karwa:** And you have the number of accounts?

**Rajat Monga:** We would be between 1 to 1.2 lakhs a quarter of accounts. This would have been 80-90 last year same time.

**Manish Karwa:** On the retail FD front, how do you define retail FD if you can just define that?

**Rajat Monga:** Individual.

**Manish Karwa:** Irrespective of the size?

**Rajat Monga:** Yes so there is no retail outside of that but this is because the depositor is a person and it could be a rich person also.

**Manish Karwa:** What is the average rate of this retail FD?

**Rajat Monga:** According to me it is yes it should be closer to 8.5.

**Manish Karwa:** You are comfortable with such a strong growth on retail FD and does it mean that after such a strong growth would you want to bring down your FD rates or you are okay?

**Rajat Monga:** That is also happening. The rates are coming down so last month also rates have been brought down on retail FDs. We are keeping some price leadership here and there so typically how we strategize would be that we will create one special bucket so today our highest-rate is 8.4. That will be I think in the 21 month bucket or something. But my 5 year is 8.25 so this is the current ballpark structure of FD rates and this will move down. Maybe this should have moved down already by the time we speak to you on the next call, it will move down.

**Manish Karwa:** Lastly what is a treasury income for this quarter?

**Rajat Monga:** There would be about 40 to 50 crores of gains from bonds.



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**Manish Karwa:** That's it, no gains from SLR?

**Rajat Monga:** This is what I am describing, SLR gains. That's because we would have cut down our HTM holding. RBI is telling banks to reduce HTM because they are cutting the HTM limit so one of the way is to cut holdings in HTM is to sell and some of the selling is accounting gains.

**Manish Karwa:** And would you have more money by selling the corporate bonds as well, is that also included here?

**Rajat Monga:** No we haven't had....we have holding onto corporate bonds. We are not trying to...not zero but it is not of that order at all, maybe 5-10 crores of that order book.

**Manish Karwa:** You sold something in the steel sector so did you make money?

**Rajat Monga:** Yes so it was sold at a profit but not to move the needle as much as 50 crores or anything.

**Moderator:** Thank you. Our next question is from the line of Rupesh Thakare from Golman Sachs Aseet Management. Please go ahead.

**Rahul:** Just one data point regarding slippages to G&PA like what would that be?

**Rajat Monga:** This quarter?

**Rahul:** Yes.

**Rajat Monga:** 74 crores is the fresh NPAs.

**Moderator:** Thank you. Ladies and gentleman due to the time constraint that was a last question. I would now like to hand the conference back to Mr. Sameer Bhise for closing comments. Thank you and over to you sir.

**Sameer Bhise:** Thank you Aman. I would like to thank the management of Yes Bank for giving us an opportunity to hold the call.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, with this we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.